

AGRICULTURAL LAND, RENT SEEKING AND TRANSACTION COSTS

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Abstract

The study aims to assess the dualistic impact of the rents and transaction costs on the farmers regarding agricultural land use. The theoretical framework is based on Rent-seeking (RS) theory and the Transaction cost of economics (TCE). The review of both doctrines explains the "outflow" or "absorption" of value. The study observes the negative aspects of maximizing the functions of farmers with rents. They lead to distortions related to monopolies or unlimited market power. On the one hand, transaction costs are setting market inefficiencies due to the lack of consolidation of property rights and loss of time. On the other hand, rents can positively contribute to the mobility of other factors and, hence, the more efficient allocation of the resources. The transaction costs represent a positive effect of the risk distribution associated with the use of resources, which determines their positive role in protecting property rights. The study uses different methods, such as comparative institutional analysis, which retrospectively shows the effect of the institutional change and, more importantly, the impact of rent-seeking and transaction costs on main actors in the agricultural sector. The study aims to answer the question: rent-seeking or transaction costs are more important for agricultural activities, and how should they be reduced to maintain better agricultural land use.

Key words: agricultural land, rent seeking, transaction costs

INTRODUCTION

The study adapts an analytical framework for the effects related to the use of agricultural land. The concept is linked to the rules for conducting transactions. The topic is important not only because is associated with the efficiency of markets and agriculture in general but also related to fundamental issues such as human nutrition and food security [9]. The effects linked to the agricultural land use and the rules of the current market have no rational explanation, in particular:

(a) Despite the increased level of consolidation, there is a decline in agricultural production, economic efficiency and value-added in agriculture.

(b) The role of the type of land use, organisations creating the economic distribution, respectively the rents value and costs related to agricultural lands.

The main focus of the study is on the social effects related to agricultural land. The non-market benefits, rent-seeking (RS) and

transaction costs (TC) are one of the explanations for the positive on the one hand and the negative role on the other of the effects of economic allocations on agricultural land. The theory of rent-seeking observes the relationship between institutions and political and economic distortions, also the non-market advantages [6]. Based on the institutional theory, RS links the analysis of property transfer organisations and their effects, and on that basis, creates a framework for analysing the issues with land access [10].

The study investigates the land use in Bulgaria and its impact on all markets, focusing on the following main topics:

(1) Trends in institutional change that influence the production factors and the possible integration in the value chain;

(2) The influence on organisations which distributes agricultural land property rights.

(3) The indirect consequences for the adaptation of the governance structure - market actors, hybrids, hierarchy because in

agricultural land contracts, different types of institutionally defined actors could participate.

Theoretical background

The market is considered a classic measure of rent [15]. The profit is based on the temporarily transferring part of a property right. In this regard, the labour of the rentier is equal to zero. In modern doctrines and concepts, efforts are linked to controlling resources or cash flows, and rent is seen as a maximizing activity [14]. In addition, the rent-seeking paradox points out to the unearned profits [21]. On the other hand, [24] studies rent-seeking in relation to the non-market advantages and almost complete lack of cost, as well as the achievement of economic goals even without the production of new goods. There also may exist a monopoly in the transactions or the contractual process, creating barriers over the other participants and causing issues with their access to resources and information [19, 20]. Barzel [2] even linked the rent issues to the duration of transactions. According to the authors' concept, the delay in a process may affect how the rules and legal principles are observed in the exchange process, for example: „first in time is first in the right „is associated with the existing possibilities for rent-seeking. Rents can predetermine non-market decision-making and the cost effects. However, they are also a consequence of the cost effects. On one hand, the costs are a consequence of the choice, and on the other - the costs predetermine the choice [5].

Williamson [26, 27] develops Transaction Cost Economics (TCE), explaining the subordination and impact of institutions at the micro level. Governance structure does not analyse social, non-market effects measured as transaction costs [28]. In this regard, the main question is if the payments in the contract process can be defined as a non-market advantage [23] or costs in favour of some and burden to other actors [22], can we consider the payments only as a negative external effect [7]?

Similar to the understanding of the dualistic nature of transaction costs [12], the link between the non-market part of the transaction and the rent seeking and its

transaction cost effects should be analysed. Based on the literature review, it can be concluded that a new analytical framework should be developed and adapted to the current dynamics.

MATERIALS AND METHODS

Legal realism is a concept in American legal doctrine that allows the analysis of rules to be reduced to a synthetic format [13]. Relatively institutional analysis assesses the trajectory of institutional change. Based on different studies, the adaptive capacity of institutional actors is strongly influenced by formal rules and their changes [29] and the formalization and capitalization of property rights [8].

Discrete structural analyses (DSA) observe (abstractly) the processes of individual micro analytical actions [28]. Based on that, these processes can be measured as cost effects and included in the calculations of non-market benefits once as a subjective market value and a second time as objectively determined rents. Rent-seeking can be the value of a market service: a document gravitating around a property right or payment in some quasi-markets: subsidy, state aid.

Benham and Benham [3, 4] define the transaction costs as the sum of the subjective and objective value, the opportunity costs, in which market and non-market payments are integrated. Transaction costs are also considered as the subjective and objective elements of production and time resources [25]. The methodological approach in the study adapts to the value of the processes as costs of property rights generated with time expenses [1, 16, and 17]. On the other hand, it excludes the market price of the object (land) from equality, due to the dualism of the doctrine. The concept represents it as a cost for some actors and an income (possible rent) for another [11].

RESULTS AND DISCUSSIONS

In the period 1990-2020, serious variations are observed in the normative framework defining agricultural land. Due to the

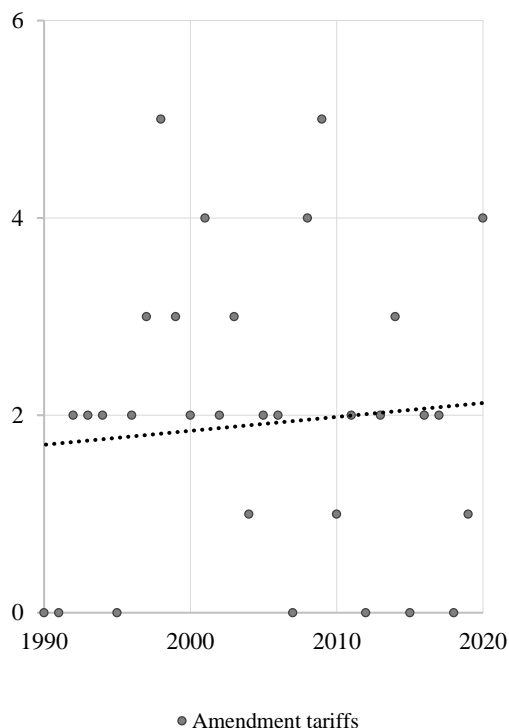
Constitutional Reform in 1991, the institution of the property is changed, and a restitution process is launched. The restoration of private property makes both hereditary and market relations extremely dynamic.

Institutional change continues due to the fact that by 2001, when restitution process was

completed and there were already more than 2 million private, fragmented agricultural properties in the country.

The latter means a high level of co-ownership (sometimes a property has more than 20 co-owners) and a high level of non-market distribution of property rights.

Average Number (per Year)



Average Number (per Year)

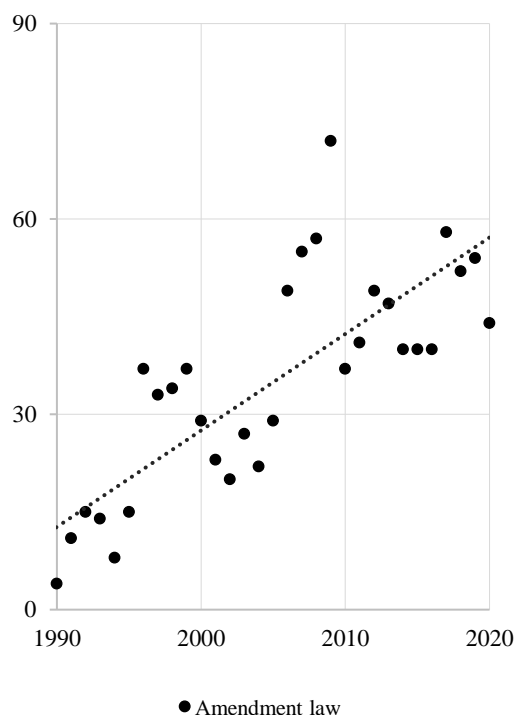


Fig. 1. Formal Institutions: Law, Tariffs and Agricultural Land in Bulgaria (1990-2020)
 Source: Own survey.

The costs in the processes and those related to access to the resource is increasing. In addition, the transaction cost is high.

The accession of Bulgaria to the European Union led to a new opportunity in the Constitution linked to an institutional trajectory related to the financial support of agricultural land. Special Investment Purpose Companies Act (SIPCA) further accelerated the process, and with the change in Art. 37c of the Ownership and Use of Agricultural Land Act, which starts the consolidation of agricultural land based on the use (not sale), with the help of lease agreements. The subsidies received per unit area, together with the procedure under Art. 37c led to an increase in the number of land transactions

and to land consolidation. These incentives stimulate the rise to new forms of rent-seeking. In some cases, the subsidy can be directly defined as rent-seeking.

Figure 1 shows the formal change in legislation related to agricultural land. The total number of normative acts is 51; tariffs have been changed 61 times (Figure 1a), and the total number of formal institutional changes is 1,094 (Figure 1b). Intense institutional change negatively affects the adaptive capacity of actors. Based on the analysis, it can be concluded that the latter increases individual transaction costs and rent-seeking.

Figure 2 shows the average prices, rents and transaction costs per decares. The costs of

access to the property, collected with the costs of adaptation, are accumulated cumulatively during the process in which the contracts run. This makes the total transaction costs relatively higher in the unfinished contracts. After the prices and rents are subtracted from the measurement of transaction costs, it can be noted that the completed contracts price of agricultural land covers the total amount of transaction costs. In unfinished contracts rent does not cover the total amount of contract transaction costs.

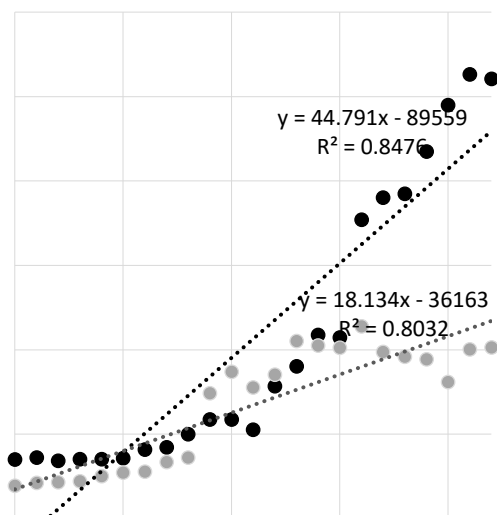
Based on the analysis, it can be concluded that in 2008-2011 there was an initial decrease in prices and an increase in rents and transaction

costs. After 2011, prices rise faster than rents, and the reason for this trend is related to the increased size of rent-seeking.

The constant demand for agricultural land (in parallel with constant supply) is a prerequisite for land prices to increase during the observed period. With the "accumulation" of agricultural land of large landowners, they have changed their strategies by refusing to sell, but only to manage it, which is why there are more unfinished contracts (leases) and more slightly completed (sales).

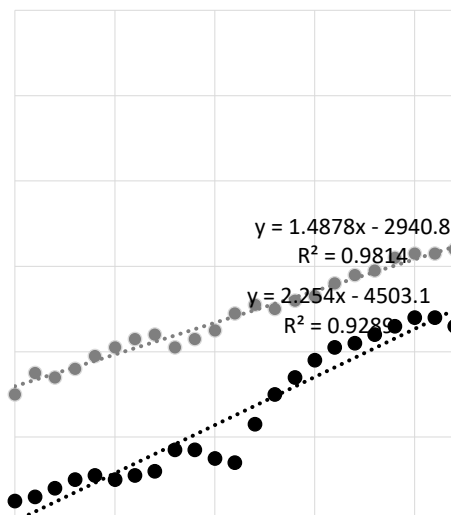
This trend has gradually created a shortage of agricultural land, as a large group of farmers already have issues with land access.

a. Average value (BGN/Dka)



● Prices ● TC

b. Average value (BGN/Dka)



● Rents ● TC

Fig.. 2. Prices, Rents and TC in Bulgaria (1998 -2021)

Source: [18], transaction cost calculation are based on own survey

*In the calculation is included the government support during COVID-19 pandemic

Participation in the market remains possible for larger producers or other large landowners due to increased land prices. Uncertainty related to land access leads producers to smaller and lower-risk initial investments with a low payback period, which stimulates the increase of unfinished contracts.

After 2011, extensive crop production with lower added value became dominant in Bulgarian agricultural structure, and rent is preferred in farming, with a continuous decrease in sales.

Large landowners have market power, which is expressed in preserving some of the rights.

Therefore they control the land access through unfinished contracts, assimilate and capitalize their advantages. For example, rent-seeking can be observed as a type of: "substitutions" related to the burden of contract activities as (1) unregulated ways of receiving part of the subsidy, direct state aid; (2) indirect control by redirection of distribution channels in order to maintain lower prices of the

resources; (3) indirect cost transfer strategies - large landowners prefer to enter into long-term contracts only with large farmers.

In practice, some owners have increased their non-market advantages by maintaining high prices and low rents. It is necessary to clarify

who benefited from these forms of rent-seeking and how contracts are distributed. The study measures the distributions of rent and transaction costs in the contracts by actors.

Figure 3 shows the distribution of rent and transaction costs by actors in 1999 and 2020.

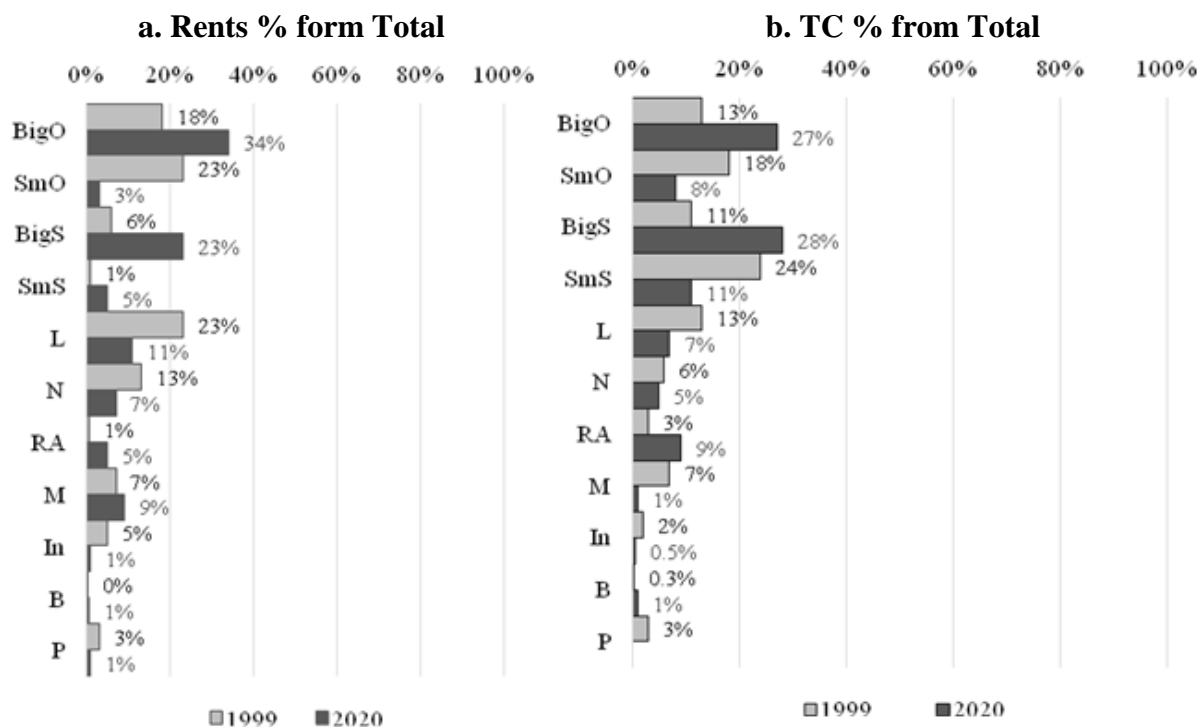


Fig. 3. Distribution by actors

Source: Own survey

Notice: BigO - large land sellers and landlords ; SmO - small land sellers and landlords; BigS - large expropriators of land (buyers; tenants); SmS - small expropriators of land (buyers; tenants); L - Lawyers; N - Notaries; RA - Registry Agency; M - Municipality; In - Intermediates; B - Banks; P - Private actors

At the beginning of the analysed period, the large agricultural landowners received considerable rents from the contacts. On the other hand, small landowners also had a high share of the rent. The transaction costs of large landowners have decreased. By contrast, the smaller owners have increased their transaction costs dramatically. Large producers had a high share of received rent, in contrast to small ones. The trend is continuing by 2020.

The explanation for the observed trends should be linked to levels of adaptive capacity and economies of scale. By 2020, small producers have lost their adaptability, and part of the transaction costs have been indirectly passed on to them.

Among the institutional actors participating in agricultural land contracts, the largest share

received as a fee for paid services and taxes is directed to lawyers and notaries. They also had the highest transaction costs compared to other institutional actors. The decrease in the relative value of transaction costs by 2020 is due to the increased labour cost. This trend allows lawyers and notaries to capitalise on some of the non-market advantages by passing on the burden to other actors.

CONCLUSIONS

Both rent-seeking and transaction costs can exist independently. Transaction costs may be a consequence of issues with access to resources or adaptation of the actors. Rent-seeking and transaction costs do not necessarily overlap as reciprocal payments in contracts. Intensive institutional change

creates conditions for increasing both processes.

The study concludes that their level increased in unfinished contracts. Unfinished contracts (lease, rent) allow the owner to maintain long-term control over resources and capitalize on non-market advantages. One of the advantages is the indirect ability to transfer individual transaction costs.

Large owners and producers have managed to boost their most significant non-market advantages of rent-seeking, some of which have been indirect transfers of transaction costs to smaller owners.

Some institutional intermediaries have managed to get more benefits in the contract. The same actors have shifted the burden of their individual transaction costs to farmers and producers. However, the distribution of financial flows around hybrids does not give reason to conclude that the total transaction costs in contracts decrease due to this type of actors.

ACKNOWLEDGEMENTS

This paper was supported by the Bulgarian Ministry of Education and Science under the National Research Program "Healthy Foods for a strong Bio-Economy and Quality of Life" approved by DCM # 577/17.08.2018.

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